

**California Department of Mental Health (DMH)**  
**FREQUENTLY ASKED QUESTIONS**  
**MHSA Housing**  
**October 27, 2006**

**1. *What does MHSA have to do with housing?***

MHSA is based upon, and incorporates by reference provisions of state law that describe the highly effective adult system of care program models implemented through California's AB 34 / 2034 programs. These provisions of law specifically identify supportive housing as a key component of integrated services for people with mental illness who are homeless.

Consumers and family members, county mental health directors and other stakeholders agree that:

- Safe, affordable, stable housing is a foundation for recovery, resiliency and wellness
- Reducing homelessness among people with mental illness is a major focus of MHSA implementation and performance measurement
- Housing has emerged as a critical need in local planning for Community Services and Supports (CSS)
- Consumers and families need a range of housing options to meet a range of needs, including not only those who are chronically homeless but also those living in restrictive settings, transition-aged youth, and others who seek to live more independently

**2. *What types of MHSA funding can be used for what types of housing-related expenses?***

As described in the MHSA Community Services and Supports Three-Year Program and Expenditure Plan Requirements:

- CSS System Development funds may be used for the services offered to consumers in supportive housing. (See pg.8 of DMH Letter No. 05-05.)
- CSS Full Service Partnership (FSP) funds may be used for costs for consumers enrolled in Full Service Partnerships. These include operating costs (rent subsidies), supportive services and capital expenditures. (See pg.7 of DMH Letter No. 05-05 and Housing FAQ 3 below.)
- CSS Outreach and Engagement funds may be used for short-term housing services and supports as part of an engagement strategy for consumers who are unserved and/or receiving only crisis services and are reluctant to enter the mental health system.
- CSS "one-time" funds are available for a range of housing opportunities. Please refer to Housing FAQ 4 below for a description of the possible uses of one-time

funds for housing to support Full Service Partnerships or Outreach and Engagement.

In addition, a portion of MHSA funds has been included in the Governor's Homeless Initiative, which combines funding from several state programs to support the development of permanent supportive housing for chronically homeless people with serious mental illness. For more information about the Governor's Homeless Initiative please see the MHSA web page:

<http://www.dmh.cahwnet.gov/MHSA/docs/HomelessInitiativeNOFAOverviewdoc.pdf>

In the future, additional opportunities may be available to use MHSA funds which are designated for capital facilities or other types of program expenditures.

### **3. *What are the appropriate uses of MHSA funds allocated for Full Service Partnerships?***

- CSS Full Service Partnership (FSP) funding can be used for any costs related to supportive housing (capital, operating and supportive services) if these expenditures are consistent with the County's approved plan, even though some of these costs (e.g. capital) might also be covered from other MHSA components at some future date.
- CSS/FSP funds may be used for ongoing rent subsidies in supportive housing projects that will serve the target population(s) that have been identified as a priority for enrollment in Full Service Partnerships. As long as the supportive housing project targets a population identified as a priority for these services (through outreach, tenant selection criteria and by designing and implementing a supportive services component of the project) then CSS funds can be used for both operating costs (rent subsidies) and supportive services costs for those units of supportive housing.
- Ideally, MHSA funds invested in supportive housing should leverage additional funding from other sources. If any MHSA funds are used for operating and/or supportive services costs of supportive housing projects it may be possible to leverage significant capital investments from other sources.
- In housing projects that integrate people with mental illness with other tenants, a reasonable cost methodology must be used to determine the share of costs that can be covered with MHSA funds.
- The use of CSS/FSP funds for rent subsidies paid to landlords for housing that is not part of a supportive housing project is limited to consumers who are receiving Full Service Partnership services and should clearly define time limits (if any) for rent subsidies for enrolled consumers.

The following are additional issues related to the implementation of the Housing component of FSPs:

Counties will need to work with providers to clarify the relationship and distribution of funding between on-site service providers who are supportive housing project sponsors or partners, and providers of client-centered services for individuals who

are enrolled in Full Service Partnerships. Both types of services are critically important to ensure access to housing and stability for individuals with the most significant challenges. In some locations all supportive housing tenants are likely to be enrolled in Full Service Partnerships with the same provider, but in other locations there may be multiple providers serving individuals who move into the same supportive housing project. As counties establish a framework for funding services for supportive housing tenants, reasonable approaches may include:

- Using System Development funds to pay for on-site services in supportive housing projects and requiring coordination between on-site services and provider(s) of Full Service Partnership services for individual tenants
- Supportive housing service providers (project sponsors or partners who provide on-site services) receive funding to provide Full Service Partnerships to eligible tenants. Consumers who are already enrolled with other Full Service Partnership programs are encouraged to transfer their enrollment to the on-site service provider when they move into supportive housing.
- It is anticipated that there will be a split that will distribute a portion of the Full Service Partnership rate to the supportive housing service provider. A county could distribute a portion of the cost directly to the supportive housing provider, or Full Service Partnership providers could subcontract with supportive housing providers.
- Full Service Partnership providers and supportive housing providers may want to develop contracts/affiliations/MOUs to facilitate an ongoing approach to sharing revenues and responsibilities.

#### **4. *What are the appropriate uses of MHSA one-time funds for housing?***

The one-time funds are primarily used for non-recurring expenses. Appropriate uses would include:

- Capital investments, including the purchase of land for future development or housing
- Costs to build or rehabilitate (remodel) housing
- Capitalizing a reserve with appropriate legal protections to ensure funds are committed for future costs of operating a supportive housing project, including units set aside for MHSA priority population(s) in other affordable housing projects
- Making a contribution into a locally administered Housing Trust Fund that will be used to pay for capital, operating and/or supportive services costs of supportive housing projects and leverage other investments for individuals with serious mental illness and their families. Proposals to use one-time funds for this purpose will be reviewed by the Department on a case-by-case basis, but will generally be appropriate if the commitment of MHSA funds to the Housing Trust Fund will leverage additional funding from other sources to expand the availability of housing for people who are a priority for MHSA full partnership

services. Because one-time funds must be used within the first three years of the County's CSS Program and Expenditure Plan, any MHSA funds contributed to a Housing Trust Fund must be distributed to specific supportive housing projects within a maximum of 3 years. DMH intends to provide substantial flexibility to counties to use one-time funds to implement supportive housing financing strategies that are reasonable and consistent with the goals of expanding the availability of community services and supports, in order to make a real impact on the lives of people with mental illnesses within 3 years.

- Transitional rental assistance (e.g. rent subsidies for up to 2-3 years) that can provide a bridge to other long-term housing subsidies for FSP consumers while they are on a waiting list (e.g. Section 8) or waiting for supportive housing projects that are in development but not yet available for occupancy
- Transitional rental assistance for FSP consumers who are enrolled in employment and training programs and can reasonably be expected to have sufficient incomes to obtain housing without ongoing assistance

The Mental Health Services Act Housing Toolkit is now available on the DMH website. The housing toolkit provides guidance on the development and operation of supportive housing as well as information on capitalized operating reserves. The toolkit may be accessed through the address listed below:

<http://www.dmh.ca.gov/mhsa/docs/MHSAToolkit-Final.pdf>

**5. *What are the appropriate uses of MHSA funds to be distributed for Capital Facilities?***

Requirements for the use of MHSA capital funds have not yet been finalized. There are several important policy questions that must be addressed before these guidelines can be determined, and no final decisions have been made at this time.

**6. *Can “one-time-only” funds be used as capital to develop housing?***

Yes. A county can use “one-time-only” funds to pay costs associated with the development of housing. The use of “one-time-only” funds for capital will not count against a county's future allocation of capital dollars.

Because the actual revenue available under the provisions of the MHSA exceeds initial estimates, DMH does not anticipate that the counties' use of “one-time-only” funds for housing development statewide, when combined with expenditures of funds that will be allocated by the State for capital (at a future date), will surpass the overall 10% allocation for Capital Facilities and Technology.

**7. *Can a county set up a “Housing Trust Fund” with “one-time-only” funds?***

Yes. If a county elects to use “one-time-only” funds to set up a Housing Trust Fund, there are a number of important considerations to address in establishing the fund:

- Who Administers the Housing Trust Fund?

In most cases, counties will chose to transfer their MHSA funds to a local government entity—at the county or city level—that administers funds to develop affordable housing. Examples include county housing departments, city housing agencies, and redevelopment authorities established by city or county government. Because these agencies have experience in administering housing funds, it will be relatively easy for them to establish procedures and guidelines to ensure that the funds are allocated and expended for housing Full Service Partnership consumers.

Counties may also transfer MHSA funds to a local intermediary, foundation or other non-governmental organization. However, the County should determine in advance that the organization has significant expertise in administering funds for housing development and the capacity to ensure that MHSA funds are used appropriately.

- Administrative Costs

If a county transfers MHSA funds to another agency or organization that will allocate and track expenditures, that agency will most likely charge an administrative fee. MHSA funds can be used for these administrative costs, and 15% of the total dollar amount committed to the Housing Trust Fund is a general guideline for what has been determined as a reasonable expense for administrative costs.

- Transfer of MHSA funds into an existing Housing Trust Fund

Because some counties and cities have existing Housing Trust Funds, questions have been raised about whether MHSA funds can be placed in an existing Housing Trust Fund.

It is important to note that there are wide variations in the way in which these local trust funds are established and administered as well as the purposes for which the funds may be used. For example it is not uncommon for a Housing Trust Fund to have statutory limits about how the funds can be spent. If a county wants to transfer MHSA funds into an existing trust fund, the County must first determine that the MHSA funds will only be used for purposes consistent with the MHSA and will not be subject to spending constraints applied to the Trust Fund that are not consistent with the MHSA. This may require action by the local governing body that established or oversees the Trust Fund.

- Leveraging of “one-time-only” funds placed into a Housing Trust Fund

Generally, MHSA funding should not be the only source of capital in a housing development project. Rather, the commitment of MHSA funds through a Housing Trust fund may provide opportunities to combine MHSA funds with funding from other sources to finance a housing development project that will serve eligible households. MHSA funds committed to the capital costs of housing development are expected to leverage other funding sources at a rate of at least 1:3 MHSA dollars to other sources. Exceptions may be appropriate in some circumstances, including rural communities in which there is limited availability of other funding for affordable housing. Counties should be prepared to provide justification for

the use of MHSA funds for a housing development project that does not leverage significant funding from other sources.

**8. *Until the MHSA Capital Facilities and Technology expenditure guidelines are published, how can counties determine if their use of MHSA “one-time-only” funds for housing are acceptable to DMH?***

Each county has been asked to develop a plan for the expenditure of their “one-time-only” funds. If the County intends to use these funds for housing development, or for the operating costs, rent subsidies and/or supportive services associated with permanent supportive housing, the County is encouraged to review the MHSA Housing Toolkit on the MHSA Website. The toolkit offers important guidance on different housing models, the housing development process, best practices related to affordability, consumer choice and other key aspects of housing creation. MHSA funding may be used for costs associated with providing housing for persons with mental illness who are eligible to receive services through Full Service Partnerships and/or outreach and engagement services, as described in the County’s approved plan for Community Services and Supports. MHSA funds may not be used to provide housing for people who are not eligible to receive these services.

While keeping in mind that they are still in draft form, counties should also refer to the Draft Guidelines for Capital Facilities on the MHSA Web page.

**9. *Does DMH have a limit on the allowable cost per housing unit to be developed with MHSA funds?***

No. However, DMH does expect that counties will use their MHSA funds to leverage a significant amount of other financing for housing development. Opportunities for this leveraging are described in the Housing Toolkit on the MHSA Website. The toolkit also offers guidance on “total development costs” per unit in the financing prototypes included in the toolkit. It is expected that the total development cost of housing developed with MHSA funds will be comparable to the cost of similar affordable housing developed in the community.

Please note that because the guidelines for the MHSA Housing Program and Capital Facilities funds have not been determined, this response only applies to the use of CSS One-Time funds.

**10. *Counties are asking for guidance on how to administer MHSA funds for tenant based rental subsidies.***

Counties may wish to partner with a local (county or city) housing authority as they typically administer the federal Section 8 housing subsidy program and have mechanisms in place to ensure that the housing units for which the subsidy is used meet basic quality standards and that the individual receiving the subsidy is eligible—in this case, under the MHSA provisions. Housing authorities also have established procedures for determining the amount of rent tenants should pay (generally 30% of income, with some adjustments) and calculating rent payments to landlords. The local housing authority will likely request an administrative fee for

these services and MHSA funds can be used to pay administrative costs; 15% of the total dollar amount allocated to operating subsidies is a general guideline for what has been determined as a reasonable expense for administrative costs. Counties should work with the local housing authority to establish the eligibility determination process and set the level of subsidy to be offered. Counties should also keep in mind that rental subsidies may only be paid for clients enrolled in Full Service Partnerships. Procedures will need to be in place to ensure that the administrator of the rental subsidies receive certification from the county that potential tenants meet the eligibility criteria.